

Message Text

CONFIDENTIAL

PAGE 01 LUSAKA 00813 061526Z

44

ACTION AF-06

INFO OCT-01 EUR-12 NEA-10 ISO-00 FS-01 ABF-01 AID-05

CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06

TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01

OMB-01 DODE-00 PM-04 H-02 L-03 NSC-05 PA-01 PRS-01

SS-15 STR-04 CEA-01 /109 W
----- 077018

P R 061219Z APR 76

FM AMEMBASSY LUSAKA

TO SECSTATE WASHDC PRIORITY 3090

INFO AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY KINSHASA

C O N F I D E N T I A L LUSAKA 0813

LUEO 11652: GDS

TAGS: EFIN

SUBJECT: DEVALUATION RUMORS IN ZAMBIA

1. CONCURRENT WITH VISIT OF TEAM FROM IMF, WHOM WE HAVE NOT BEEN IN TOUCH WITH YET, INCREASING NUMBER OF RUMORS OF DEVALUATION HAVE RESURFACED IN TRADE AND BUSINESS CIRCLES AND ARE BEING TAKEN RATHER SERIOUSLY BY KEY BUSINESS AND MINING OFFICIALS. LATTER APPEAR WITH IMF TO BE ENCOURAGING GRZ TO DEVALUE WITHIN SUGGESTED RANGE OF 20 - 40 PERCENT, BIASED LOCALLY IN FAVOR OF LOWER END WITH IMF URGING UPPER LIMIT.

2. TWO FACTORS APPEAR TO BE PARAMOUNT IN BUDGING A RELUCTANT GRZ TOWARD ACCEPTING THE NEED FOR A DEVALUATION. FIRST, IMF SUPPOSEDLY IS MAKING FURTHER ASSISTANCE OF ABOUT \$80 MILLION CONTINGENT UPON DEVALUATION. SECOND, MINING COMPANIES ARE ARGUING THAT DEVALUATION WOULD IMMEDIATELY MAKE THEIR OPERATIONS PROFITABLE BY REDUCING THE LOCAL COST COMPONENT OF PRODUCTION, I.E. FOREIGN EXCHANGE EARNINGS CONVERTED TO KWACHA MAINLY TO COVER
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LUSAKA 00813 061526Z

LOCAL WAGES. THIS IN TURN WOULD INCREASE THE COMPANIES' CREDIT

WORTHINESS AND IMPROVE PROSPECTS FOR BORROWING ABROAD THE \$384 - 571 MILLION WHICH THE MINISTER OF FINANCE ESTIMATED IN HIS BUDGET ADDRESS (LUSAKA 0282) AS BEING NECESSARY IN JUOUY FOR THE SMOOTH OPERATION OF THE MINES.

3. OF SECONDARY IMPORTANCE ARE THE BENEFITS DEVALUATION WOULD BRING BY DISCOURJNOJG IMPORTS (IN ADDITION TO EXCHANGE CONTROLS) AND ENCOURAGING GREATER USE OF LOCALLY PRODUCED MATERIALS TO EXTENT SUBSTITUTES ARE AVAILABLE. HOWEVER, THIS FACTOR WOULD HAVE NO IMMEDIATE QX ICT ON SERIOUS BOP SITUATION.

4. GRZ APPEARS CONCERNED THAT DEVALUATION COULD HAVE SERIOUS INFLATIONARY EFFECTS ESPECIALLY ON URBAN ELITE, BUT MAY HAVE COME AROUND TO VIEW THAT PRICE RISES ARE INEVITABLE AT ANY RATE. IN SAME VEIN, DEVALUATION WOULD AGGRAVATE ALREADY SERIOUS AND GROWING DIFFICULTIES IN RECRUITING FOREIGN CONTRACT EMPLOYEES WHO ARE PAID IN KWACHA BUT WHO MAY DECIDE THAT IF DEVALUATION UNAVOIDABLE, THEN GRZ WILL HAVE EITHER TO SUFFER THE MANPOWER LOSSES OR TO PROVIDE ADDITIONAL COMPENSATION.

5. TWO DEVELOPMENTS COULD DETER GRZ. FIRST, BANK OF ZAMBIA GOVERNOR KUWANI IS REPORTEDLY NOW IN SAUDI ARABIA WITH \$100 MILLION FINANCING REQUEST. IF HE IS SUCCESSFUL, GRZ WOULD HAVE BREATHING SPACE OF SEVERAL ADDITIONAL MONTHS. SECOND, MINING COMPANIES HAVE REPORTED SIGNIFICANT IMPROVEMENT IN COPPER SHIPMENTS. IN MARCH 93,000 TONS WAS SHIPPED AT SOMEWHAT HIGHER PRICES THAN FIRST TWO MVJTHS OF 1976. COPPER RECEIPTS IN MARCH WILL BE DOUBLE THOSE OF JANUARY AND SHORT-TERM BOP PRESSURES WILL EASE SOMEWHAT.

6. FOR JIDDA: ANY INFORMATION YOU CAN PROVIDE ON THE OUTCOME OF KUWANI'S TALKS WITH THE SAUDIS WOULD BE APPRECIATED. WILKOWSKI

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, DEVALUATIONS, CURRENCIES
Control Number: n/a
Copy: SINGLE
Draft Date: 06 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LUSAKA00813
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760129-0526
From: LUSAKA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760493/aaaadbtm.tel
Line Count: 97
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 12 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 MAY 2004 by BoyleJA>; APPROVED <08 SEP 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: DEVALUATION RUMORS IN ZAMBIA
TAGS: EFIN, ZA, IMF
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006